

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Chief Financial Officer**

Natwar M. Gandhi  
Chief Financial Officer



**MEMORANDUM**

**TO:** The Honorable Linda W. Cropp  
Chairman, Council of the District of Columbia

**FROM:** Natwar M. Gandhi [signature]  
Chief Financial Officer

**DATE:** January 13, 2004

**SUBJECT:** Fiscal Impact Statement: "Comprehensive District  
Homeowner Property Tax Relief Act of 2004"

**REFERENCE:** Bill Number 15-303; Amendment in the Nature of a Substitute

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**Conclusion**

Funds are sufficient in the FY 2004 budget to implement the proposed legislation; however, improvements in the District's revenue forecasts could be used to support the proposed tax initiative for FY 2004. Under the current financial plan, the Mayor and the Council will have to adjust expenditures in FY 2005 through FY 2007 in order to fund the initiative in the out-years. The proposed legislation is intended to relieve real property tax burdens estimated to be \$27.9 million in FY 2004 and \$113.1 million in FY 2004 through FY 2007.

**Background**

The proposed legislation makes owner-occupied property eligible for a new tax credit that will equal the difference between the current property tax liability and 110 percent of the previous year's tax liability. Eligibility is triggered by the conditions for eligibility for the existing Homestead Deduction program. To be eligible for the credit all properties must be within the District of Columbia and the owners must file a tax return with the City.

In addition, the proposed legislation will increase the maximum allowable District Homestead Deduction from \$30,000 to \$35,000 in FY 2004. The amount of the deduction will remain the same for FY 2005. The proposed legislation then increases the Homestead Deduction to \$40,000 in FY 2006 and to \$45,000 in FY 2008.

The Homestead Deduction reduces a real property's assessed value prior to computing the yearly tax liability. The Homestead Deduction is limited to residential property. To qualify the property must be occupied by the owner and contain no more than 5 dwelling units. In the case of a cooperative housing association, the unit must be occupied by the shareholder as their principal residence, and the deduction is granted to the cooperative. In the case of property transferred to a trust, the property may qualify for the Homestead Deduction if the property remains the principal residence of the transferer before and after the transfer.

### **Financial Plan Impact**

Funds are not budgeted in the FY 2004 budget to implement the proposed legislation; however, improvements in the District revenue forecasts could be used to support the proposed tax initiative for FY 2004. Under the current financial plan, the Mayor and the Council would have to adjust expenditures in FY 2005 through FY 2007 in order to fund this initiative in the out-years.

The table in Figure 1 presents the projected reductions in tax burdens when the tax cap is reduced from the 25 percent limitation in current law to the 10 percent limitation on increases to real property tax, then factors in the tax revenue reductions caused by changes to the maximum allowable limit of the Homestead Deduction.

*Figure 1.*

<b>Impact on Local General Fund Revenue</b>				
(\$ in millions)				
<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>4 -Year Total</b>
\$27.9	\$32.5	\$30.1	\$22.6	<b>\$113.1</b>

*Note: This fiscal impact statement reflects changes made by the amendment in the nature of a substitution and supercedes the October 3, 2003, November 3, 2003 and the January 5, 2004 statements previously transmitted to the Council.*